

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of The Compliance Filings  
Regarding the Rates of MCI  
Telecommunications Corporation Pursuant to  
Minn. Rules, Parts 7827.0100 to 7827.0600,  
Relating to Rate Adjustments Due to the Tax  
Reform Act of 1986

ISSUE DATE: December 16, 1987

DOCKET NO. P-443/M-87-443

ORDER ACCEPTING COMPLIANCE  
FILINGS

PROCEDURAL HISTORY

On June 29, 1987, the Minnesota Public Utilities Commission's (the Commission) permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. The rules state that on and after July 1, 1987, overall rates of public utilities and telephone companies are unjust and unreasonable unless their rates have been adjusted under Minn. Rules, part 7827.0400 or certain alternative conditions have been met to account for the reduction in federal income tax expense.

On July 14, 1987, MCI Telecommunications Corporation (MCI) submitted a letter to the Commission requesting that it be allowed to maintain its rates at the present levels. MCI included proprietary pro-forma calculations indicating that its tax liability and tax rate would actually increase rather than decrease due the TRA.

On July 21, 1987, the Residential Utilities Division of the Office of Attorney General (the RUD-AG) requested additional information from MCI.

On October 5, 1987, the RUD-AG submitted comments to the Commission indicating that because MCI is suffering losses, the TRA has no practical effect on MCI's rates. The RUD-AG indicated that it would not pursue the issue with MCI.

On November 2, 1987, the Commission issued its Order Requiring Filing. Order Paragraph No. 1 directed MCI to substantiate its claim that its rates do not require adjustment.

On December 1, 1987, MCI submitted a copy of its proprietary 1986 Minnesota Annual Report.

## FINDINGS AND CONCLUSIONS

The Commission must determine whether MCI's existing rates are just and reasonable in light of the TRA.

MCI claimed that the TRA will result in an increase in MCI's effective income tax rate. MCI claimed this results from the offset of the TRA tax rate reductions with the elimination of the investment tax credit, depreciation deduction reductions, and the imposition of the alternative minimum tax. MCI also argued that it is a competitive business and has not operated under the traditional rate base accounting system. Therefore, MCI claimed that it would be unable to project the amount of additional income tax that it would have to pay due to the TRA for its Minnesota jurisdictional activities.

The RUD-AG argued that MCI is still a rate regulated telephone company under the laws of Minnesota. Further, the RUD-AG stated that MCI's position regarding increased tax liability has not addressed the issue of tax normalization as applied in ratemaking. However, the RUD-AG stated that because MCI suffered a net loss for the year 1986, it would be reasonable to require no adjustment to MCI's rates due to the TRA.

The Commission agrees with the RUD-AG that MCI remains a rate regulated telephone company in the state of Minnesota. MCI cannot escape its responsibilities as a rate regulated company by simply claiming that it does not maintain its books and records in a manner which would facilitate the calculation of the effects of the TRA on its operations.

The Commission also agrees with the RUD-AG that MCI has not substantiated its position that the TRA will result in increased federal income taxes. The Commission finds that MCI has not included the effects of tax normalization as required for the ratemaking process. Therefore, the Commission cannot determine the appropriateness of MCI's claim regarding its proposed increased tax expense due to the TRA.

However, the Commission finds that the RUD-AG has examined the data filed by MCI and attested that MCI is suffering net taxable losses in Minnesota. Therefore, the TRA has no practical effect on MCI's rates in Minnesota. The Commission concludes that MCI's existing rates do not need to be adjusted for the effects of the TRA.

## ORDER

1. The filings of MCI Telecommunications Corporation with respect to Minn. Rules, parts 7827.0100 to 7827.0600 are accepted. The Company's existing rates for telephone service in Minnesota need not be changed as a result of the federal Tax Reform Act of 1986.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

(S E A L)